OUR 50TH YEAR

1978 sales

$35 million

1972 - $11,980,000 • 1973 - $17,600,000 • 1974 - $21,680,000 • 1975 - $22,280,000 • 1976 - $26,580,000 • 1977 - $31,365,000

ELKS STORES LIMITED

1978 ANNUAL REPORT

YEAR ENDED JANUARY 27, 1979

Corporate Directory

OFFICERS

SAMUEL ELKIND
Chairman of the Board

MANUEL ELKIND
President and Chief Executive Officer

BRIAN BIRNBAUM, C.A.
Vice-President — Finance & Administration

DAVID E. GRAHAM
Vice-President — Merchandising

J. FREDRIC DUNCAN
Secretary-Treasurer

HARVEY D. WILLOWS
Corporate Controller

JOHN C. SHANNON
General Manager — Dapper Dan Division

DIRECTORS

*LEWIS B. BAKER, Q.C.
Partner
Hall, Baker, Berman, Rosenblatt and Goodman

*MANUEL ELKIND
President and Chief Executive Officer

SAMUEL ELKIND
Chairman of the Board
Elks Stores Limited

*GEORGE S. MANN
President
Unicorp Financial Corporation

ARNOLD NAIMAN
Merchandising Consultant

PHINEAS SCHWARTZ
Partner
Goodman and Goodman

*member of audit commitee

HEAD OFFICE
1198B Caledonia Road
Toronto, Ontario M6A 2W5

TRANSFER AGENT
The Royal Trust Company

BANKERS
Bank of Montreal

AUDITORS
Laventhol and Horwath

LEGAL COUNSEL
Goodman and Goodman

SHARES LISTED
Toronto Stock Exchange

ANNUAL MEETING
The Annual Shareholders Meeting will be held at 9.30 a.m. Thursday, July 26, 1979 the Lancaster Room, The Four Seasons Hotel, 21 Avenue Road, Toronto, Ontario.

Elks Stores Limited

Highlights

	THIS YEAR	LAST YEAR
SALES	$34,968,000	$31,365,000
NET INCOME	256.000	624,000
EARNINGS PER SHARE	0.34	0.84
CASH FLOW	1,240,000	1,770,000
WORKING CAPITAL	3,184,000	3,626,000
SHAREHOLDERS' EQUITY	4,615,000	4,358,000

President's Message

To Our Shareholders:

Your company sustained reduced profits in the fiscal year ended January 27, 1979. However, in assessing these results, it must be recognized that, within the 12 months under review, a record 35 per cent expansion of the number of outlets in the Elks group was accomplished as our number of merchandising units rose from 69 to 93 stores. The long-term benefits to both sales and profits which will flow from this expansion will more than compensate for the temporary dislocation of operating efficiencies which occurred within the year.

Sales rose for the 50th consecutive year, reaching $34,968,000, an increase of over 11 per cent from $31,365,000 a year earlier. Net income was $256,000 or 34 cents per share compared with $624,000 or 84 cents per share.

Lower profits are primarily attributable to three principle causes. The first of these was the year-end decision to undertake the non-recurring write-off and closing out of the accounts receivable activity of the Joe Feller division, in spite of the fact that we are still in the process of attempting to collect on these accounts. The second, also non-recurring, was the cost attached to, and the inventory adjustments required by, the integration of the 22 newly purchased Pant City outlets with the Dapper Dan division. Thirdly, gross margins were adversely affected by a dramatic style change in the jean market, which because it occurred coincidental with the injection of Pant City units into the system, management was unable to respond as quickly and as effectively as they might have otherwise in the introduction of more profitable lines to the product mix.

Today, the Elks group of 95 stores market under three well known names in the merchandising industry. The Elks stores themselves, comprising 52 style centres, are targeted primarily at the mid-teen to mid-forty male market offering a broad range of fashion at popular prices. Our 34 highly specialized Dapper Dan outlets cater to the youth market, offering contemporary fashion to young men and women. The 9 Joe Feller stores are strategically located in Ottawa and in selected markets in Quebec. They are large, well designed units with a broad selection of high fashion merchandise to attract men of all ages.

While mention has been made in previous annual reports, it is important to emphasize again the underlying asset to be found in our portfolio of retail lease locations. The value of these leases is not visable on our balance sheet. In the light of the slowdown in commercial retail development, it would be vitually impossible to recreate the structure of desirable locations your company now has under long-term lease.

Your company is now completing the installation of highly sophisticated point of sale computer equipment which provides the most comprehensive merchandising information retrieval system available. Elks is among the first fashion merchandising and specialty clothing chains to harness computer capability in this manner.

This system, which places cash registers at each of our outlets in touch with our central computer facility at head office, allows day-to-day examination of sales and inventory item by item, in sizes and colour. It also provides instantaneous information on a per branch and per employee basis. While this new system will not be totally effective for several months, the benefits to management in terms of controls, inventory mobility and the ability to respond to style trends, will be reflected in greater efficiencies in the years ahead.

The consideration for the purchase of this equipment will be the issuance to International Computers Limited, the supplier, of non-voting, participating, redeemable, convertible preference shares in the amount of $727,000. The net effect of this financing, which is more fully described in the notes to the financial statements, will be to increase equity by the same amount and by way of a recent sale and lease back agreement, working capital will improve substantially.

Prospects for the future are promising. Results in the first quarter, a historically weak quarter related to the year as a whole, are substantially ahead of last year — showing a profit of $27,000 compared to a $130,000 loss as restated. Sales in the quarter were also ahead, rising 25 per cent to $8 million compared with $6.4 million a year ago. Management budgets call for a return to more acceptable profit margins on increased sales, as the beneficial aspects of last year's expansion and the recent installation of computer capability have an opportunity to impact on sales and profits.

I am very pleased to announce recent appointments and additions to our management group. Mr. David Graham, who has been a merchandising manager for 4 years, has assumed the responbilities of Vice-President of Merchandising and brings to that office an enviable record of marketing achievement over the past 12 years. John Shannon has accepted the position of General Manager of our Dapper Dan Division following 14 years as a senior merchandiser with a large North American chain. The position of Corporate Controller has been assumed by Mr. Harvey Willows who has been with our accounting division for three years. Mr. Sol Roter, who is responsible in large measure for the successful integration of our new computer system, takes on the vital role of Systems and Information Manager. Kathy Hossbach-Mior has recently been appointed Director of Personnel and Human Resources. Mrs. Mior has formal education in fashion merchandising and considerable experience in employee relations, having been associated with one of Canada's leading deparment store chains. Her duties represent a very important assignment for a company which relies so heavily on its employees.

The talents and efforts of all employees are very much appreciated. On behalf of the directors, I thank them for their dedication and support.

As this report represents the completion of the 50th year since the first Elks store opened, the directors have also asked me to make special mention of the contribution made throughout the half century by Mr. Samuel Elkind, the founder and Chairman of the company. I take great personal pleasure and pride in thanking him for his courage, foresight and wise counsel throughout those years.

Toronto, Ontario
June 26, 1979.

MANUEL ELKIND
President &
Chief Executive Officer.

Consolidated Statement of Income

Year ended January 27, 1979

	1979	1978
Sales	$34,967,514	$31,364,634
Expenses:		
Cost of sales and operating expenses	32,858,194	28,879,619
Depreciation and amortization	1,005,319	945,339
Interest on long-term debt	374,605	256,147
Other interest	433,833	325,353
	34,671,951	30,406,458
Income before Income taxes	295,563	958,176
Income taxes	39,984	334,348
Net income	$ 255,579	623,828
Earnings per share	34¢	84¢

Consolidated Statement of Retained Earnings

Year ended January 27, 1979

	1979	1978
Balance, beginning of year	$2,998,977	$2,375,149
Add net income	255,579	623,828
Balance, end of year	$3,254,556	$2,998,977

See accompanying notes.

Consolidated Balance Sheet

January 27, 1979

ASSETS

	1979	1978
Current:		
Cash	$ 102,722	$ 200,686
Accounts receivable — trade, net of allowance for doubtful accounts	490,131	991,138
Receivable — other	202,892	609,797
Receivable from an affiliated company	66,426	-
Inventory	11,167,695	9,264,635
Prepaid expenses and sundry assets	530,369	597,485
	12,560,235	11,663,741
Debenture receivable	—	68,500
Equipment and leasehold improvements (Note 2)	4,543,920	3,412,717
Deferred costs (Note 3)	1,076,590	784,737
	$18,180,745	$15,929,695

See accompanying notes.

On behalf of the Board:

MANUEL ELKIND *(Director)*
GEORGE S. MANN *(Director)*

LIABILITIES

	1979	1978
Current:		
Operating bank loan (Note 4)	$ 2,200,000	$ 2,400,000
Accounts payable and accrued liabilities	6,898,872	5,326,592
Income taxes	38,339	115,288
Current portion of long-term debt (Note 5)	239,058	195,500
	9,376,269	8,037,380
Long-term debt (Note 5)	3,513,783	2,837,921
Deferred income taxes	675,897	696,587
SHAREHOLDERS' EQUITY		
Capital stock (Note 6)	1,360,240	1,358,830
Retained earnings	3,254,556	2,998,977
	4,614,796	4,357,807
	$18,180,745	$15,929,695

AUDITORS' REPORT

To the Shareholders of
Elks Stores Limited

We have examined the consolidated balance sheet of Elks Stores Limited as at January 27, 1979 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the company as at January 27, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

May 25, 1979.
(Note 12(ii) June 25, 1979)
Toronto, Ontario.

LAVENTHOL AND HORWATH
Chartered Accountants.

Consolidated Statement of Changes in Financial Position

Year ended January 27, 1979

	1979	1978
Financial resources were provided by:		
Working capital provided from operations (Note 10)	$1,240,208	$1,770,267
Issue of common shares	1,410	-
Increase in long-term debt	924,000	469,000
Reduction of debenture receivable	68,500	-
	2,234,118	2,239,267
Financial resources were used for:		
Additions to equipment, autos and leasehold improvements	1,801,798	507,291
Less increase in long-term debt	—	11,847
	1,801,798	495,444
Debenture receivable	—	68,500
Deferred costs	626,577	530,436
Repayment of long-term debt	248,138	182,003
	2,676,513	1,276,383
Increase (decrease) in working capital (Note 11)	(442,395)	962,884
Working capital, beginning of year	3,626,361	2,663,477
Working capital, end of year	$3,183,966	$3,626,361

See accompanying notes.

Elks Stores Limited

Notes to Consolidated Financial Statements

January 27, 1979

1. Significant accounting policies:

Principles of consolidation:

The consolidated financial statements include the accounts of the company and its subsidiary companies, all of which are wholly-owned.

Inventory:

Inventory is priced at the lower of average cost and market determined by the retail inventory method, market being net realizable value less normal profit margin.

Depreciation and amortization:

Depreciation is provided on equipment on a straight-line method over a seven-year period and on automobiles on the declining balance method at the rate of 30%. Leasehold improvements are being amortized over the terms of the leases and initial options to a maximum of 10 years.

No depreciation or amortization is taken on new stores or existing stores with major renovations until the first day of the fiscal year following the year in which the store was opened or major renovation took place.

Deferred costs:

It is the company's accounting policy to capitalize as deferred costs certain expenditures related to new store openings. These costs are amortized over a thirty-six month period commencing in the first fiscal year following the store opening.

Certain display and promotional expenses are capitalized as deferred costs and are amortized over a thirty-six month period commencing in the first fiscal year following the year of expenditure.

Income taxes:

The company follows the tax allocation method of providing for income taxes. Under this method deferred income taxes result from claiming for tax purposes capital cost allowance in excess of depreciation and amortization recorded in the accounts, and from writing off for income tax purposes deferred charges and other costs in the year incurred.

In computing income for tax purposes, the comany deducted a 3% inventory allowance which had the effect of decreasing the income tax expense by $136,190.

2. Equipment and leasehold improvements:

	1979	1978
Equipment	$3,465,600	$2,900,102
Leasehold improvements	5,064,570	3,841,958
	8,530,170	6,742,060
Accumulated depreciation and amortization	3,986,250	3,329,343
	$4,543,920	$3,412,717

3. Amortization of deferred costs:

Deferred costs amortized during the current year and included in the consolidated statement of income and retained earnings amount to $328,724 (1978 - $257,958).

4. Operating bank loans:

The operating bank loan in the amount of $2,200,000 and bank loans shown in Note 5 in the amount of $1,854,327 are secured by a first floating charge demand debenture and a registered general assignment of book debts.

5. Long-term debt:

	Interest	Due date	Current portion	Long-term	Total 1979	Total 1978
Bank Loans:						
Bank of Montreal	Prime plus 2%	January, 1983	$ 43,011	$ 902,842	$ 945,853	$ 967,000
Bank of Montreal	Prime plus 2%	October, 1981	42,039	866,435	908,474	—
			85,050	1,769,277	1,854,327 (i)	967,000
Permanent Commercial Corporation	Bank prime plus 2¼% maximum 13¼%	December, 1982	132,000	1,725,000	1,857,000 (ii)	1,989,000
Chattel mortgages	9% to 11%	Various	18,000	19,506	37,506	55,506
Conditional sales contract	—	February, 1981	4,008	—	4,008	21,915
			$239,058	$3,513,783	$3,752,841	$3,033,421

Approximate principal repayments required in each of the next five fiscal years are as follows:

1980	$ 239,000
1981	235,100
1982	1,000,921
1983	2,277,820
1984	—
Subsequent to 1984	—
	$3,752,841

(i) Although these bank loans in the amount of $1,854,327 are evidenced by demand promissory notes, arrangements have been made with the bank to retire the principal amount of the loan at the rate of approximately $7,000 per month.

(ii) A demand debenture in the amount of $2,000,000 has been issued as collateral for this loan, consisting of the following:

(a) A first charge on all fixed assets ranking pari passu with the bank debenture referred to in Note 4, in the amount of $1,000,000.

(b) A second floating charge on all other assets in the amount of $1,000,000.

6. **Capital stock:**

Authorized:

2,000,000 Common shares, without par value

Issued:

	Number of shares issued		Amount	
	1979	1978	1979	1978
Balance, beginning of year	745,364	745,364	$1,358,830	$1,358,830
Shares issued during year on exercise of stock options	204	—	1,410	—
Balance, end of year	745,568	745,364	$1,360,240	$1,358,830

Employee stock option plan:

The company has set aside 18,002 common shares for its employee stock option plan. As at January 27, 1979 the company has outstanding options under the plan for 14,202 shares exercisable over the next nine years at prices ranging from $6.75 to $7.75 per share.

7. **Remuneration of directors and senior officers:**

The aggregate direct remuneration for the year paid or payable to directors and senior officers amounts to $197,784 (1978 - $201,440).

8. **Commitments:**

Equipment leases:

During the year the company entered into lease agreements involving store fixtures, furniture and leasehold improvements totalling $692,540 (1978 - $609,797). These agreements have buy-back options.

Property leases:

All the company's store locations are held under leases entered into for periods from three to twenty-five years. Most of these leases are for minimum rentals and certain percentage-of-sales clauses.

Minimum rental payments:

Future approximate annual rental payment requirements under leases in existence at January 27, 1979 are as follows:

	Equipment leases	Property leases	Total
Year ended January 27,1980	$238,000	$2,287,000	$2,525,000
Year ended January 28, 1981	238,000	2,223,000	2,461,000
Year ended January 31, 1982	238,000	2,128,000	2,366,000
Year ended January 30, 1983	238,000	2,005,000	2,243,000
Year ended January 29, 1984	238,000	1,855,000	2,093,000

9. **Earnings per share:**

The average number of shares outstanding during the 1979 fiscal year was 745,499 (1978 - 745,364). No dilution in earnings per share would result from the exercise of employee stock options.

10. **Working capital provided from operations:**

	Current year	Previous year
Net income	$ 255,579	$ 623,828
Add items not involving a current outlay of working capital:		
Depreciation and amortization	1,005,319	945,339
Deferred income taxes (reduction)	(20,690)	201,100
	984,629	1,146,439
	$1,240,208	$1,770,267

11. **Changes in components of working capital:**

Increase (decrease) in current assets:

	Current year	Previous year
Cash	$ (97,964)	$ (97,821)
Receivable - other	(406,905)	609,797
Account receivable, affiliated company	66,426	(57,016)
Accounts receivable, trade	(501,007)	(151,383)
Inventory	1,903,060	(360,959)
Prepaid expenses and sundry assets	(67,116)	91,458
	896,494	34,076
Increase (decrease) in current liabilities:		
Operating bank loan	(200,000)	1,000,000
Accounts payable and accrued liabilities	1,572,280	(1,406,577)
Income taxes	(76,949)	(315,738)
Current portion of long-term debt	43,558	(206,493)
	1,338,889	(928,808)
Increase (decrease) in working capital	$ (442,395)	$ 962,884

12. **Subsequent events:**

(i) On March 28, 1979 the company agreed to purchase certain computer equipment and issue in consideration therefor 7,275 fully paid and non-assessable preference shares. The preference shares are to have a par value of $100 and are to be participating, non-voting, redeemable and convertible into common shares at any time on or after March 1, 1981. The number of common shares to be issued on conversion is to be determined based on 90% of the weighted average trading price of the common shares during the 20 trading days immediately preceding the date of the receipt of conversion notice.

The preference shares may be redeemed at the option of the company or the holder at any time on or after July 1, 1981 at par plus any unpaid dividends thereon. Should they be redeemed at the option of the holder a sixty day redemption notice is required.

(ii) On June 25, 1979 the company entered into two sale and lease-back agreements involving the computer equipment referred to in Note 12 (i) above, and certain fixtures and leasehold improvements. These leases will be treated as capital leases in accordance with the accounting recommendations of the Canadian Institute of Chartered Accountants. The proceeds from these two sales amounting to $977,500 are to be repaid over ninety-four months based on interest rates of 10.57 and 11.75 percent.

13. **Anti-inflation legislation:**

The company was subject to restraint of profit margins, prices, dividends and compensation under the terms of the Anti-Inflation Act and Regulations which were phased out during 1978. Management believes that based upon their interpretation and their compliance tests, the company was in compliance with the legislation.

Elks Stores Limited

Five Year Summary

(000's omitted)

	1978	1977	1976	1975	1974
Sales	34,968	31,365	26,580	22,285	21,682
Net Income	256	624	442	375	301
Earnings per share*	0.34	0.84	0.60	0.51	0.41
Earnings % to Sales	0.7	2.0	1.7	1.7	1.4
Cash Flow	1,240	1,770	1,623	1,217	1,022
Current Assets	12,560	11,664	11,630	8,712	8,514
Current Liabilities	9,376	8,037	8,966	6,927	7,575
Working Capital	3,184	3,627	2,664	1,785	939
Working Capital Ratio	1.3	1.5	1.3	1.3	1.1
Fixed Assets	4,544	3,413	3,593	3,635	3,345
Long Term Debt	3,514	2,838	2,539	2,458	1,692
Shareholders' Equity	4,615	4,358	3,734	3,258	2,883
Return on Equity %	5.6	14.3	11.8	11.5	10.4
No. of Shares Outstanding at Year end	746	745	745	740	740
No. of Stores at Year End	93	69	66	67	66
Total Square Feet – Stores	319	288	283	296	292
Sales per Square Foot – Selling Area	144.50	136.15	117.40	94.00	93.00

*Based on weighted average number of shares outstanding

Elk's

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(416) 789-7881